of view of Professor Carver, the whole idea of a separate product for a marginal or any other laborer in a business plexus being unscientific. But on this supposition a laborer may receive a wage of 100 bushels when "he is worth" to the employer 120. It will be objected: "How can that be? The competition of employers, driving down profits, will raise the wage to 120." This objection is valid if we assume no superiority of bargaining power in employers; viz., if the competition of employers is as full and as free as of laborers. But those who admit that profit, as distinct from interest, wage of management, remuneration of rent, etc., accrues to employers, are obliged to admit that such profits come in large part from superiority of bargaining in buying labor. Now, this must mean that the so-called marginal laborer, and every laborer, is paid less than he is worth to the employer; in other words, that there is a profit got out of the so-called product of the marginal laborer.

Professor Carver, in his *Distribution of Wealth,* analyzes with considerable skill the origin and nature of profit, and concludes:

> The share which resulted from the business man's superior bargaining powers cannot be called the *product* of the business man, for superior bargaining produces nothing. . . . . In the last analysis, the profits of the superior bargaining of business men, as a class, comes out of the wages, rent, or interest, of the labor, land, or capital which they hire. (P. 261.)

This is true, but it is wholly inconsistent with Professor Carver's acceptance and explanation of "marginal productivity" as a basic conception in distribution. Profits, so far as got by bargaining with labor, consist of the difference between the co-operative productivity of the body of laborers and the addition of the productivity of the same laborers working separately. Of course, only a strong monopolist can hold the whole of this difference as profits, but even in competition employers can hold a good deal of it, their power to do so implying that competition is commonly less full and free among employers than among laborers.

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GEORGE SMITH'S BANK

What Chicago owes to this Scotch banker it is not easy to estimate. In his day everything was done on a one-mule-team, one-man-power basis. This was no less true of farming, the principal

occupation, than it was of every kind of business. If we look at results, which are the best commentators on human actions, it will be seen that this one-man power was more forcibly illustrated in George Smith as a banker than it was in any other man or business.

There were then no accumulations of capital equal even to the wants of an infant city, and little or no media of exchange. He seemed to be the only man who comprehended the situation; and it was he who saw the opportunity to satisfy a great want, and at the same time to make it profitable to himself. The community was suffering because of the lack of capital and the machinery for buying wheat — which was then the only farm produce that could bear transportation — and sending it to New York. There was no gold outside of New York, and there were no bank bills that would be received as current money. Wheat, therefore, was the only article by means of which bills of exchange could be created in order to pay debts due to New York for merchandise sent west. To meet this urgent demand, George Smith, with another Scotchman by the name of Alexander Mitchell, obtained a charter from the state of Wisconsin for a Marine and Fire Insurance Company, with power to receive deposits of money.[1] Certificates of deposit in the form of bank notes were issued payable on demand. These certificates formed a money which was used in Chicago and the Northwest, being loaned out by George Smith at 12 per cent. interest per annum. These notes were used to buy wheat, which was taken as security for the loan and shipped to New York. In addition, the company — a combined insurance company and bank — insured the wheat at a good rate. This operation involved the only risk assumed by the company.

Wheat and money, by George Smith's necromancy, were made practically equivalent; and Chicago, being a great wheat market, became as a result the capital city of the great Northwest. I have seen Lake Street from the South Branch of the river to State Street full of wheat teams as the outcome of this one-man power in transforming wheat into money. He did it by appending his signature to certificates of deposit in the Wisconsin Marine and Fire Insurance Company, which were as good as wheat, because the actual wheat was behind every dollar of them. Moreover, his Scotch brain made them, not only productive of 12 per cent. interest to himself, but serviceable to the farmer and merchant as the only medium of ex-

[1] February 28, 1839.

change then existing, and by means of which the great city of Chicago began her marvelous development as a commercial center.

These certificates of deposit, by their terms of issue, representing money redeemable on demand, a jealous 2-per-cent.-a-month banker collected some $70,000 worth of them, and took them to Milwaukee in order to exact payment in coin. Mr. Smith, getting wind of this, sent a man in the dead of winter with a sleigh as a transportation company for the gold necessary to meet this demand. In the public mind this event seemed thoroughly to establish the redeemability of the money in gold; and as this conviction, based on this practical proof, extended over the country very rapidly, the credit of the institution was strongly reinforced, and any more runs of that kind were prevented.

When the state of Illinois, in order to establish a state currency, passed its shin-plaster bank bill,[2] George Smith obtained a charter from Georgia, and issued his bills from that state instead of Wisconsin. Very soon after this, a Chicago banker, who had taken out an Illinois charter, had issued bills by the terms of whose issue he could be drawn upon for gold; but a large amount of these bills did not come back for redemption in gold. This banker presented a similar amount of George Smith's Georgia notes to Smith in Chicago to obtain gold for them without going to Georgia for it. Mr. Smith invited the banker into his vaults in order to inquire of him if he would not prefer to exchange the Georgia notes for his own notes, which the shrewd Scotchman displayed in large quantity — having collected them when issued and stored them away for just such an occasion. The Illinois state banker suddenly lost his appetite for gold, and returned to his own bank a wiser if not a better man.

The accumulation of capital by others was made possible by the use of Smith's certificates of deposit as money, and thereby he was exposed to such demands as have been narrated; but George Smith, in spite of all, remained master of the situation because he was

[2] The Illinois free banking law was passed over the governor's veto February 15, 1851. It provided for a referendum in November of that year, at which time it was approved by popular vote. Under it 120 banks were established. It allowed issue of bank notes upon public "stocks" (bonds), state or federal, to within 80 per cent. of market, not exceeding par value. The stocks were deposited with the state auditor, who issued notes to the banking association for circulation. The law did not require a specie reserve, but provided simply that notes be redeemed in specie at the bank of issue. As these banks were commonly located in inaccessible places, redemption was exceedingly difficult.

honest and capable. Here was the secret of the whole matter. The fortune of $40,000,000 disclosed by his death is a testimony to both the honesty and the ability with which he made use of circumstances, and at the same time rendered a great service to the community at large. The essential means by which he was able to create this immense fortune was mainly the faith of the public in his honesty and ability.

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TWO DECISIONS RELATING TO ORGANIZED LABOR

Since the publication in the March number of the *Journal* of Mr. Clark's article on the "Legal Status of Organized Labor," the decisions in two cases of interest to labor combinations have been handed down by courts of last resort — the case of Berry *vs.* Donovan[1] by the Massachusetts Supreme Court, and that of the South Wales Miners' Federation *vs.* the Glamorgan Coal Company,[2] by the British House of Lords. Both cases involve questions of privilege, or of justification for acts *prima facie* unlawful.

Berry *vs.* Donovan is a case involving the so-called "closed-shop" contracts, and, in the opinion handed down, the Massachusetts court passes upon the question whether or not such a contract, voluntarily entered into by the employer with the union, will justify the union in procuring the discharge of an employee who has refused and continues to refuse to become a member of the union. The *prima facie* wrong committed here is the intentional interference by the union with the rights of an individual "to dispose of one's labor as he will and to have the benefit of his lawful contracts." The facts of the case are as follows: Berry was a shoemaker who had been for four years in the employ of a Haverhill firm, under a contract terminable at will. Donovan was a member, and the representative at Haverhill, of a national organization of shoe-workers — the Boot and Shoe Workers' Union. A contract was entered into by the union and the employing firm, in which the employers agreed to employ as shoe-workers only members in good standing, and not to retain any shoe-worker after receiving notice from the union that such shoe-worker was "objectionable to the union, either on account of being in arrears for dues, or disobedience of the union rules or

[1] 74 Northeastern Reporter, 603.

[2] L. R. 1905, Appeal Cases, 239.